**Press Release**

# Ritesh Tradefin Limited

**December 03, 2019**

**Rating**

| Instrument / Facility | Amount (Rs. crore) | Rating | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 13.00 | IVR BB+ /Stable<br>(IVR Double B Plus with Stable Outlook) | Reaffirmed and Reclassified |
| **Total** | **13.00** | | |

**Details of Facilities are in Annexure 1**

## Detailed Rationale

The rating assigned to the bank facilities of Ritesh Tradefin Limited (RTL) derive comfort from its experienced promoters, strategic location of the plant, and improved capacity utilization with sustained growth in scale of operation. Further, the rating also consider its low near-term debt repayment obligations. However, the rating strengths are partially offset by its small scale of operations with thin profitability, lack of adequate backward integration vis-à-vis volatility in prices, working capital intensive nature of operations, highly competitive & fragmented nature of industry and cyclicality in the steel industry.

**Key Rating Sensitivities:**

**Upward Rating Factors:**

- Continued growth in scale of operations supported by both the arms – Sponge Iron & Angle channel in the upcoming years
- Improvement in the profitability parameters

**Downward Rating Factors:**

- Any decrease in company's projected top-line owing to the concentrated customer base or increase in the power & raw material cost impacting the company's profitability.
- Moderation in the capital structure

**List of Key Rating Drivers with detailed description**

**Key Rating Strengths**

*Experienced promoters*

The promoters have long-standing experience in production and selling of Iron & Steel products such as Sponge Iron, Pig Iron, M.S. Ingot, M.S. Billet, Silico Manganese, Ferro Alloys, Heavy Structural Item, Light Structural Item, TMT Bar etc. through various companies. Currently, the day to day affairs of the company is managed by Mr. Ritesh Agarwal, CEO, second generation entrepreneur having an experience of more than 14 years.

*Strategic location of the plant*

RTL's manufacturing facility is located at Durgapur industrial belt in Burdwan district of West Bengal, which is in close proximity to coal mine of Eastern Coalfield Ltd, Raniganj (W.B.); from where RTL procures coal. Further, iron-ore (the main raw material for the company) rich states of Jharkhand and Orissa are also located nearby. Further, Durgapur being an industrial belt has end market for its sponge iron. Moreover, the plant is well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Hence, the plant enjoys competitive advantages in terms of containment of transportation costs and ready market.

*Sustained growth in scale of operation*

The total operating income of the company grew at a CAGR of ~46% during FY16-FY19 with a y-o-y growth of ~100%. The growth is fuelled by enhanced capacity utilization and better sales realisations. The capacity utilization of the company improved from ~55% in FY18 to ~76% in FY19.

*Low near-term debt repayment obligations*

The long-term debt equity ratio and overall gearing remained moderate at 0.59x and 1.50x respectively as on March 31, 2019 (0.54x and 1.50x respectively in March 31, 2018). Further, the total indebtedness of the company as reflected by the Total Outside Liabilities/Tangible Net worth remained moderate at 3.30x as on March 31, 2019. The credit risk profile of the company remained comfortable as the company has low repayment obligation of Rs.0.31 crore in next three years and has no near-term debt raising plans.

**Key Rating Weaknesses**

*Small scale of operation with low profitability*

The scale of operation of the company though improved considerably continued to remain small with a PAT of Rs.0.65 crore on a total operating income of Rs.113.07 crore in FY19. Small scale of operations restricts the financial flexibility of the company.

*Lack of adequate backward integration vis-à-vis volatility in prices*

The degree of backward integration defines the ability to minimize price volatility risk and ability to resist cyclical downturns generally witnessed in the steel industry. KTL does not have any backward integration for its raw materials and procures the same from outside, exposing the company to price volatility risk. Iron ore pellets and coal are procured from nearby pellet plants and coal mines at competitive rates. The price of iron ore/pellet and coal are volatile in nature and the same exposes the company to input price fluctuation risk for its entire requirement.

*Highly competitive & fragmented nature of industry*

The spectrum of the steel industry in which the company operates is highly fragmented and competitive due to presence of numerous players in India owing to relatively low entry barriers. Hence, the players in the industry do not have pricing power and are exposed to the prices fixed by the industry giants. Further, the company derive around 36% of its sales in FY19 from its top ten customers, indicating a moderately concentrated customer base.

*Working capital intensive nature of operations*

The operations of the RTL are working capital intensive as the company needs to procure its main raw materials i.e. iron ore and coal mostly on advance basis or with minimum credit period and on the other hand has to extend higher credit period to its customers due to high competition in the industry. Besides, it also needs to maintain raw material inventory (mainly iron ore) for uninterrupted production. The average utilisation of its working capital limit of RTL remained high at about 100% during the past 12 months ended on April, 2019.

*Cyclicality in the steel industry*

The steel industry is sensitive to the business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market.

Furthermore, the producers of steel & related products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

**Analytical Approach:** Standalone

**Applicable Criteria**

Rating Methodology for Manufacturing Companies

Financial Ratios and Interpretation (Non-financial sector)

**Liquidity**

RTL's liquidity profile is expected to remain adequate marked by its healthy cash accruals vis a- vis its debt repayment obligations of Rs.0.31 crore in next three years with no near-term debt funded capex plan. Further, the company has a free cash and bank balance of Rs.2.72 crore as on March 31, 2019. However, high average cash credit utilisation of the company indicates a low liquidity cushion.

**About the Company**

Ritesh Tradefin Limited (RTL), incorporated in January 1993, is engaged in the manufacturing of Sponge Iron and angle channels with a current installed capacity of 30,000 metric tonne per annum (MTPA) of sponge iron and 36,000 MTPA of angle channels, belongs to the one Agarwal family based out of Bardhaman, West Bengal with Mr. Ritesh Agarwal being the main promoter. The Agarwal family is actively involved in the steel sector from last 30 years through various companies under its fold. All the Promoters and Directors of RTL are fully equipped with the knowledge of Iron & Steel Industry and in the activity since 1993.

**Financials (Standalone):**

**(Rs. crore)**

| For the year ended* / As On | 31-03-2018 | 31-03-2019 |
|---|---|---|
| | Audited | Audited |
| Total Operating Income | 56.35 | 113.07 |
| EBITDA | 3.57 | 4.13 |
| PAT | 0.06 | 0.65 |
| Total Debt | 20.23 | 21.27 |
| Tangible Net worth | 13.50 | 14.15 |
| EBITDA Margin (%) | 6.33 | 3.65 |
| PAT Margin (%) | 0.10 | 0.57 |
| Overall Gearing Ratio (x) | 1.50 | 1.50 |

*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** India Ratings has moved the rating of RTL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated February 15, 2018.

**Any other information:** Nil

**Rating History for last three years:**

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2019-20) | | | Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 |
| 1. | Long Term Bank Facilities – Cash Credit | Long Term | 7.50 | IVR BB+ / Stable Outlook | IVR BB+ / Stable Outlook | - | - | - |
| 2. | Long Term Bank Facilities – Overdraft* | Long Term | 5.50 | IVR BB+ / Stable Outlook | - | | | |
| 3. | Short Term Bank Facilities – Overdraft* | Short Term | 5.50 | - | | | | |

* There has been reclassification of limit, where the Short Term Bank Facilities has been reclassified as Long Term Bank Facilities.

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

**Name and Contact Details of the Rating Analyst:**

| | |
|---|---|
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**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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## Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Reaffirmed and Reclassified/ Outlook |
|---|---|---|---|---|---|
| Cash Credit | - | - | - | 7.50 | IVR BB+ /Stable |
| Overdraft | - | - | - | 5.50 | IVR BB+ /Stable |